

Message Text

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44

ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 FRB-01

INR-05 NSAE-00 RSC-01 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-01 SIL-01 OMB-01 NSC-05 SS-15 STR-01

CEA-01 L-02 H-01 PA-01 PRS-01 USIA-06 FEAE-00 INT-05

OES-03 /084 W

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R 201108Z NOV 74

FM AMEMBASSY BERN

TO SECSTATE WASHDC 9864

INFO AMEMBASSY BONN

AMEMBASSY PARIS

AMEMBASSY LONDON

AMEMBASSY ROME

AMEMBASSY MADRID

USMISSION EC BRUSSELS

USMISSION OECD PARIS UNN

AMCONSUL ZURICH

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E.O. 11652: N/A

TAGS: EFIN, SZ

SUBJECT: SWISS FOREIGN EXCHANGE/GOLD MARKET

REF: BERN 3928

1. SWISS CONTACTS OF EMBASSY HAVE HAD VARIETY OF FACTORS
TO SUGGEST AS BASIS SHARP DECLINE DOLLAR/SWISS FRANC RATE
OVER PAST FEW DAYS. UNCONFIRMED RUMORS OF VOLATILE MOVEMENT
OF OIL PRODUCER FUNDS ABOUND AND RECENT FOURTH QUARTER OIL
PAYMENTS, INCLUDING RETROACTIVE PAYMENTS, OF \$25-30
BILLION HAVE APPARENTLY CONTRIBUTED GREATLY TO MARKET
INSTABILITY.

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2. MOST OBSERVERS NOW ARE CONVINCED THAT LARGE HOLDERS, WHETHER OIL RELATED OR NOT, HAVE RECENTLY MOVED TO DIVERSIFY HOLDINGS. SF HAS RISEN EVEN AGAINST DM NOT BECAUSE OF OBJECTIVE CRITERIA SUCH AS RATE OF INFLATION OR POTENTIAL IN COMMERCIAL TERMS FOR PURCHASE GOODS AND SERVICES BUT RATHER BECAUSE HOLDERS INCREASINGLY SEEKING FINANCIAL ASSETS WHICH OFFER POTENTIAL FOR MINIMIZING RISKS AND SOME HOPE OF PRESERVING PRINCIPAL. STRENGTH OF SWISS BANKING AND FINANCIAL SYSTEM, POLITICAL STABILITY AND TRADITION ARE AMONG FACTORS WHICH MAKE SWITZERLAND DESIRABLE AT MOMENT.

3. FUNDS MOVING INTO SWITZERLAND IN RECENT DAYS ARE APPARENTLY BEING KEPT IN LIQUID CASH FORM IN BANKS. OCTOBER 21 REMOVAL OF INTERST BAN ON FOREIGN-HELD SF DEPOSITS (REFTEL) IS OFTEN CITED AS FACTOR IN INCREASING ATTRACTIVENESS OF SF HOLDINGS, ALTHOUGH SWISS BANK TIME DEPOSIT RATES ARE ONLY IN 6-7 PERCENT RANGE AT BEST.

4. MARKET HAS ALSO BEEN INFLUENCED BY MIDDLE EAST TENSIONS, APPARENT UNWILLINGNESS OF SWISS NATIONAL BANK ALONE TO INTERVENE TO SLOW SF RISE EVEN VIS-A-VIS DM, BAD ECONOMIC NEWS FROM U.S. (OCTOBER WHOLESALE DEFICIT AND NARROWING INTEREST RATE DIFFERENTIALS AS U.S. MONETARY POLICY SEEMS TO BE LESS STRINGENT.)

5. AMONG REASONS THAT SWITZERLAND HAS NEVER JOINED IMF IS FEAR THAT SF MIGHT BECOME RESERVE CURRENCY. SWISS AUTHORITIES ARE ALSO ALERT TO PROBLEMS FOR DOMESTIC MONETARY POLICY WHICH SHORT-TERM CAPITAL INFLOWS COULD CAUSE AND WOULD TAKE STEPS ENCOURAGE COMPENSATING OUTFLOWS IF CONSIDERED ADVISABLE.

6. WHILE SWISS BANKERS HAVE TRADITIONALLY ADVOCATED SOME PORTION OF A PORTFOLIO BE HELD IN GOLD AND HAVE GENERALLY ASSUMED THAT MANY AMERICANS WILL WANT TO OWN SOME AFTER JANUARY 1, 1975, SHARP UPWARD PRICE TREND HAS CAUSED SOME CONCERN AND NERVOUSNESS, SINCE IT LARGELY BASED ON SPECULATIVE ANTICIPATION OF U.S. DEMAND AND COULD BE REVERSED SHARPLY IF MAJOR CHANGES SHOULD OCCUR ON SUPPLY LIMITED OFFICIAL USE

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SIDE OR IF MAJOR HOLDERS DECIDED TO TAKE PROFITS AT A CERTAIN PRICE.
PERCIVAL

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